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CHINA NORTHEAST  
PETROLEUM HOLDINGS LIMITED

**UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK**

UNITED STATES SECURITIES  
AND EXCHANGE COMMISSION,

Plaintiff,

vs.

CHINA NORTHEAST PETROLEUM HOLDINGS  
LIMITED; WANG HONGJUN, (a/k/a Hongjun  
Wang); JU GUIZHI (a/k/a Guizhi Ju); and JIANG  
CHAO (a/k/a/ Chao Jiang)

Defendants,

JIANG MENGFU (a/k/a Mingfu Jiang); and SUN  
JISHUANG (a/k/a Jishuang Sun),

Relief Defendants.

No. 12-CV-8696 (NRB)  
ECF

**ANSWER OF CHINA NORTH  
EAST PETROLEUM HOLDINGS  
LIMITED**

**JURY TRIAL DEMANDED**

**ANSWER OF DEFENDANT  
CHINA NORTH EAST PETROLEUM HOLDINGS LIMITED**

Defendant China North East Petroleum Holdings Limited (“NEP”), by and through undersigned counsel, submits the following Answer to the Complaint filed by the United States Securities and Exchange Commission (“SEC”) on November 29, 2012. Except as expressly admitted, NEP denies the allegations in the Complaint.

NEP understands that on April 11, 2014, in a parallel criminal action<sup>1</sup> that involves substantially similar allegations to this action and pends before Judge Richard J. Leon in the District Court for the District of Columbia, Chao Jiang, a defendant in this action, was acquitted of criminal securities fraud under 18 U.S.C. § 1348 relating to the NEP September 16, 2009 Prospectus Supplement, Form 8-K, and accompanying stock offering. NEP further understands that on April 28, 2014, the Court ordered a mistrial as to all remaining counts.

### **SUMMARY**

1. The statement in Paragraph 1 is not a charging allegation but a self-serving description of litigation motive. Nonetheless, NEP denies Paragraph 1.
2. NEP denies Paragraph 2 as alleged. NEP admits to the nature of its business in oil exploration, drilling and production.
3. Paragraph 3 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations of Paragraph 3.
4. NEP admits the allegations in the first three sentences in Paragraph 4 to the extent that the referenced documents speak for themselves. The last sentence in Paragraph 4 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations in the last sentence of Paragraph 4.
5. NEP admits to the allegations in the first sentence in Paragraph 5. NEP denies the remaining allegations in Paragraph 5.
6. NEP admits to the allegations in the first two bullet points in Paragraph 6. NEP lacks requisite knowledge to admit or deny the allegations in the third bullet point in Paragraph 6 and therefore denies those allegations. NEP denies the allegations in the first sentence in the

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<sup>1</sup> *United States v. Wang, et al.*, No. 1:13-cr-00152 (D.D.C.) (Leon, J.).

second paragraph in Paragraph 6. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 6 and therefore denies those allegations.

7. The statement in Paragraph 7 is not a charging allegation but a self-serving description of litigation motive. Nonetheless, NEP denies Paragraph 7.

### **JURISDICTION**

8. NEP admits the allegations in Paragraph 8.

9. NEP admits that venue is proper in this Court. NEP denies the remaining allegations in Paragraph 9.

10. NEP denies the allegations in Paragraph 10.

### **DEFENDANTS**

#### ***CNEP***

11. NEP admits it is a Nevada corporation. NEP denies the remaining allegations in the first sentence in Paragraph 11. NEP denies the second sentence in Paragraph 11 as alleged. NEP admits to the nature of its business in oil exploration, drilling and production.

12. NEP admits the allegations in Paragraph 12.

13. NEP admits the allegations in Paragraph 13.

14. NEP admits that as of November 27, 2012 its stock was being traded over-the-counter. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 14 and therefore denies those allegations.

#### ***Individual Defendants***

15. NEP admits the allegations in the first two sentences in Paragraph 15. NEP admits that Wang is a Chinese national. NEP denies the remaining allegations in the third sentence in Paragraph 15. NEP admits Wang's stock ownership as reported in NEP's 2009 10-K. NEP denies the remaining allegations in the fourth sentence in Paragraph 15.

16. NEP admits the allegations in the first three sentences in Paragraph 16. NEP admits that at one time, Ms. Ju held a 10% interest in Songyuan North East Petroleum Technical Services Co., Ltd. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 16, and therefore denies those allegations.

17. NEP admits that Jiang is a Chinese citizen and that he formerly resided in Jersey City, New Jersey. NEP denies the allegations as alleged in the second sentence in Paragraph 17, but admits that at one time Jiang was Vice President of Corporate Finance and Secretary of NEP.

***Relief Defendants***

18. NEP admits that Sun Jishuang is the wife of Hongjun Wang and that Sun Jishuang once held the title Paragraph 18 attributes to her. Except as expressly admitted, NEP denies the allegations in the first sentence in Paragraph 18. NEP lacks requisite knowledge to admit or deny the allegations in the second sentence in Paragraph 18 and therefore denies those allegations. The last sentence in Paragraph 18 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations in the last sentence in Paragraph 18.

19. NEP admits the allegations in the first sentence in Paragraph 19. NEP lacks requisite knowledge to admit or deny the allegations in the second sentence in Paragraph 19 and therefore denies those allegations. The last sentence in Paragraph 19 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations in the last sentence in Paragraph 19.

**FACTUAL ALLEGATIONS**

**A. CNEP Raises \$31.9 Million in the U.S. Capital Markets**

20. NEP admits the allegations in the first two sentences in Paragraph 20. NEP admits that the document referenced in the third sentence in Paragraph 20 speaks for itself.

21. NEP admits the allegations in the first two sentences of Paragraph 21. NEP denies the allegations in the third sentence of Paragraph 21, but admits that Jiang Chao assisted in coordinating preparation and filing of some of NEP's press releases and filings.

22. NEP admits the allegations in the first two sentences in Paragraph 22. NEP admits that the documents referenced in the remaining sentences in Paragraph 22 speak for themselves.

23. NEP admits the allegations in the first sentence in Paragraph 23. NEP admits that the documents referenced in the remaining sentences in Paragraph 23 speak for themselves.

24. NEP admits the allegations in Paragraph 24.

**B. Offering Proceeds Transferred to Insiders**

25. NEP admits the allegations in the first three sentences in Paragraph 25. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 25 and therefore denies those allegations.

26. NEP admits the allegations of the first two sentences in Paragraph 26. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 26 and therefore denies those allegations..

27. NEP denies the allegations in Paragraph 27.

28. NEP admits the allegations in the first three sentences in Paragraph 28. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 28 and therefore denies those allegations.

29. NEP lacks requisite knowledge to admit or deny the allegations in Paragraph 29 and therefore denies those allegations.

30. NEP denies the allegations in the first sentence in Paragraph 30. NEP admits the allegations in the second sentence in Paragraph 30.

31. NEP admits that alleged transfers referenced in Paragraphs 26 through 29 were not specifically and separately disclosed in its public filings, does not admit any obligation to disclose the alleged transfers and otherwise denies the allegation in Paragraph 31.

**C. CNEP Insiders Had Long Engaged In Undisclosed and Improper Related-Party Transactions**

32. NEP denies the allegations in Paragraph 32.

**1. *The Board Discovers Undisclosed, Related-Party Transactions***

33. NEP lacks requisite knowledge to admit or deny the allegations in Paragraph 33 and therefore denies those allegations.

34. NEP admits the allegations in the first sentence in Paragraph 34. NEP lacks requisite knowledge to admit or deny the allegations in the remaining sentences in Paragraph 34 and therefore denies those allegations.

35. Paragraph 35 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations of Paragraph 35, except that NEP admits that the audit committee retained an accounting firm to conduct an investigation.

**2. *The Hong Kong Accounting Firm Uncovers Numerous Undisclosed, Related-Party Transactions***

36. Paragraph 36 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations of Paragraph 36, except that NEP admits that the accounting firm issued a report.

37. NEP lacks requisite knowledge to admit or deny the allegations in Paragraph 37 and therefore denies those allegations.

38. Paragraph 38 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations of Paragraph 38,

except that NEP admits that the investigation revealed that the debt had not been a one-off transfer and that the accounting report speaks for itself.

39. NEP denies the allegations in Paragraph 39.

40. NEP denies the allegations in Paragraph 40.

41. NEP denies the allegations in Paragraph 41.

42. NEP denies the allegations in the first sentence in Paragraph 42 except that NEP admits the Audit Committee Charter speaks for itself. The second sentence in Paragraph 42 contains legal assertions or conclusions to which no responsive pleading is required. Further, NEP lacks requisite knowledge to admit or deny the allegations in the second sentence of Paragraph 42 and therefore denies those allegations. NEP admits that the alleged transactions were not specifically and separately reported in its public filings and denies any obligation to disclose. Except as expressly admitted, NEP denies the remaining allegations in Paragraph 42.

**D. Wang and Ju's Ongoing Role In Controlling CNEP**

43. NEP admits the allegations in the first sentence in Paragraph 43. NEP denies the remaining allegations in Paragraph 43.

44. NEP denies the allegations of Paragraph 44.

45. The first sentence in Paragraph 45 contains legal assertions or conclusions to which no responsive pleading is required. Except as expressly alleged, NEP denies the allegations in the first sentence Paragraph 45. NEP admits that, while a Director, Ms. Ju entered into agreements on behalf of NEP. NEP admits that Ms. Ju attended board meetings after May 23, 2010. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 45 and therefore denies those allegations.

46. NEP admits the allegations in the first sentence in Paragraph 46. NEP admits that the referenced resolution speaks for itself. NEP admits the allegations in the third sentence.

47. NEP admits the allegation as to Wang and denies the allegations as to Ju in Paragraph 47.

48. NEP denies the allegations in the first sentence in Paragraph 48. NEP admits that Ms. Ju attended board meetings after May 23, 2010 and that outside counsel had contact with Ju about fees at some point. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 48 and therefore denies those allegations.

49. NEP admits that Wang had signature authority over NEP's Bank of America account after May 23, 2010. NEP lacks requisite knowledge to admit or deny the remaining allegations in Paragraph 49 and therefore denies those allegations.

**E. CNEP's Public Filings Contained Material Misrepresentations and Omissions**

50. NEP denies the allegations in Paragraph 50.

51. NEP denies the allegations in Paragraph 51.

52. NEP denies the allegations in Paragraph 52.

53. NEP denies the allegations in Paragraph 53.

**F. CNEP Lacked Adequate Recordkeeping and Internal Controls**

54. NEP denies the allegations in Paragraph 54.

55. NEP denies the allegations in Paragraph 55, except to the extent that the accounting report speaks for itself.

**FIRST CLAIM FOR RELIEF**  
**Violations of Securities Act Section 17(a)**

56. Answering Paragraph 56 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 55, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 56.

57. NEP denies the allegations in Paragraph 57.



58. NEP denies the allegations in Paragraph 58.

59. NEP denies the allegations in Paragraph 59.

**SECOND CLAIM FOR RELIEF**  
**Violations of Exchange Act Section 10(b) and Rule 10b-5**

60. Answering Paragraph 60 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 59, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 60.

61. NEP denies the allegations in Paragraph 61.

62. NEP denies the allegations in Paragraph 62.

63. NEP denies the allegations in Paragraph 63.

**THIRD CLAIM FOR RELIEF**  
**Violations of Exchange Act Section 13(b)(5) and Exchange Act Rule 13b2-1**

64. Answering Paragraph 64 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 63, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 64.

65. NEP denies the allegations in Paragraph 65.

66. NEP denies the allegations in Paragraph 66.

67. NEP denies the allegations in Paragraph 67.

**FOURTH CLAIM FOR RELIEF**  
**CNEP Violated Exchange Act Sections 13(a), 13(b)(2)(A)**  
**and 13(b)(2)(B) and Rules 13a-1, 13a-11 and 13a-13**

68. Answering Paragraph 68 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 67, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 68.

69. NEP denies the allegations in Paragraph 69.

70. NEP denies the allegations in Paragraph 70.

71. NEP denies the allegations in Paragraph 71.

72. NEP denies the allegations in Paragraph 72.

**FIFTH CLAIM FOR RELIEF**  
**Wang, Ju and Jiang Chao Aided and Abetted CNEP's**  
**Reporting, Recordkeeping and Internal Controls Violations**

73. Answering Paragraph 73 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 72, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 73.

74. NEP denies the allegations in Paragraph 74.

75. NEP denies the allegations in Paragraph 75.

**SIXTH CLAIM FOR RELIEF**  
**Wang, Ju and Jiang Chao Aided and Abetted CNEP's**  
**Exchange Act Section 10(b) and Rule 10b-5 Violations**

76. Answering Paragraph 76 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 75, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 76.

77. NEP denies the allegations in Paragraph 77.

78. NEP denies the allegations in Paragraph 78.

**SEVENTH CLAIM FOR RELIEF**  
**Wang and Ju as Control Persons Under Exchange Act**  
**Section 20(a), are Liable for CNEP's Violations**

79. Answering Paragraph 79 of the Complaint, NEP incorporates by reference the allegations and assertions contained in Paragraphs 1 through 78, inclusive, of this Answer as though fully set forth verbatim in this Paragraph 79.

80. NEP denies the allegations in Paragraph 80.

81. NEP denies the allegations in Paragraph 81.

82. NEP denies the allegations in Paragraph 82.

**Prayer for Relief**

(a) NEP requests entry of Judgment against the SEC adjudging that the SEC is not entitled to any relief by virtue of the allegations and claims in this Complaint.

(b) NEP requests that the Court award it costs of suit as the law permits.

(c) NEP requests such other and further relief as the Court deems just and appropriate.

**Jury Demand**

NEP hereby demands a trial by jury.

Dated: May 15, 2014

COFFINO LAW GROUP, LLP

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